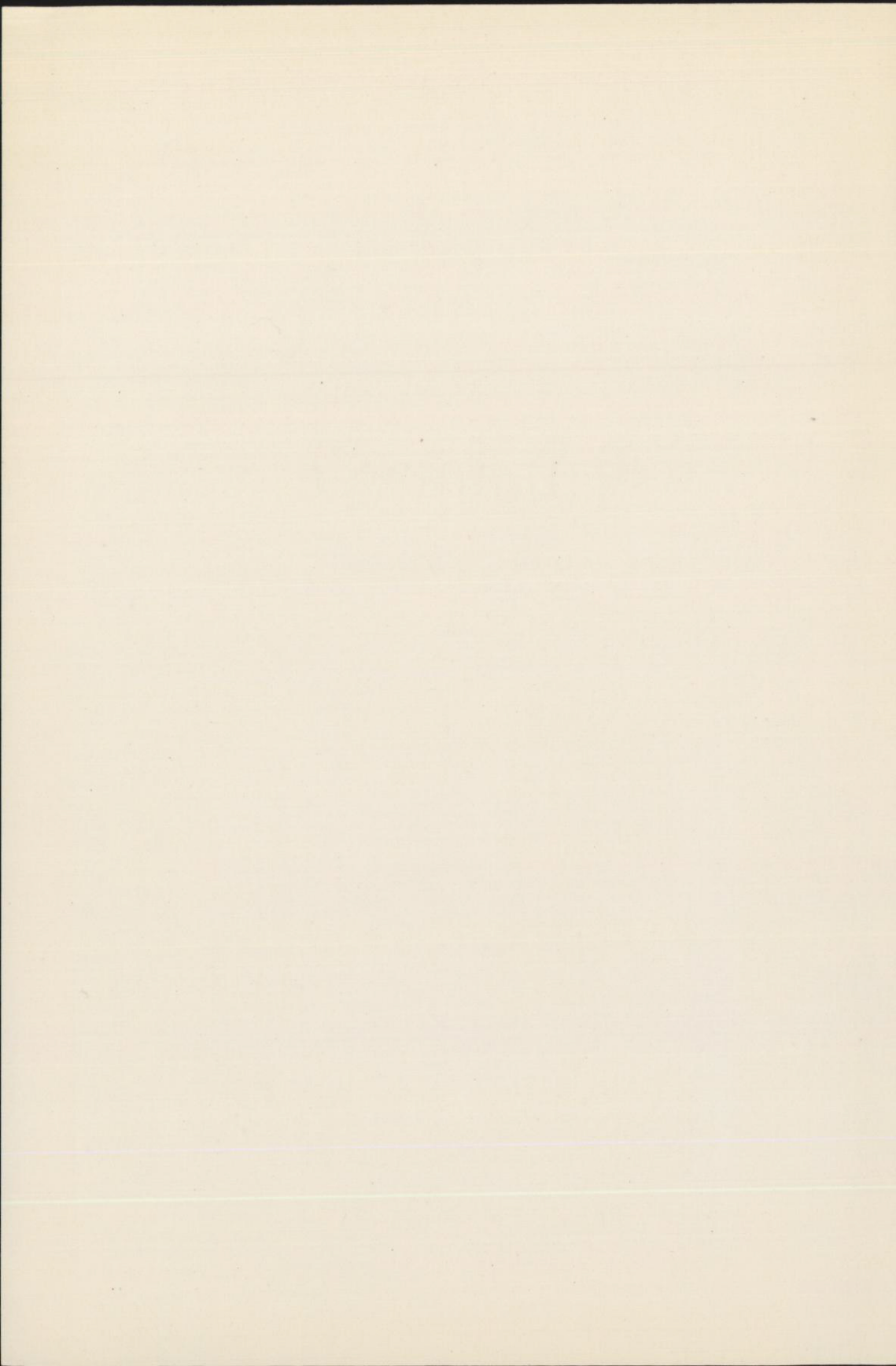


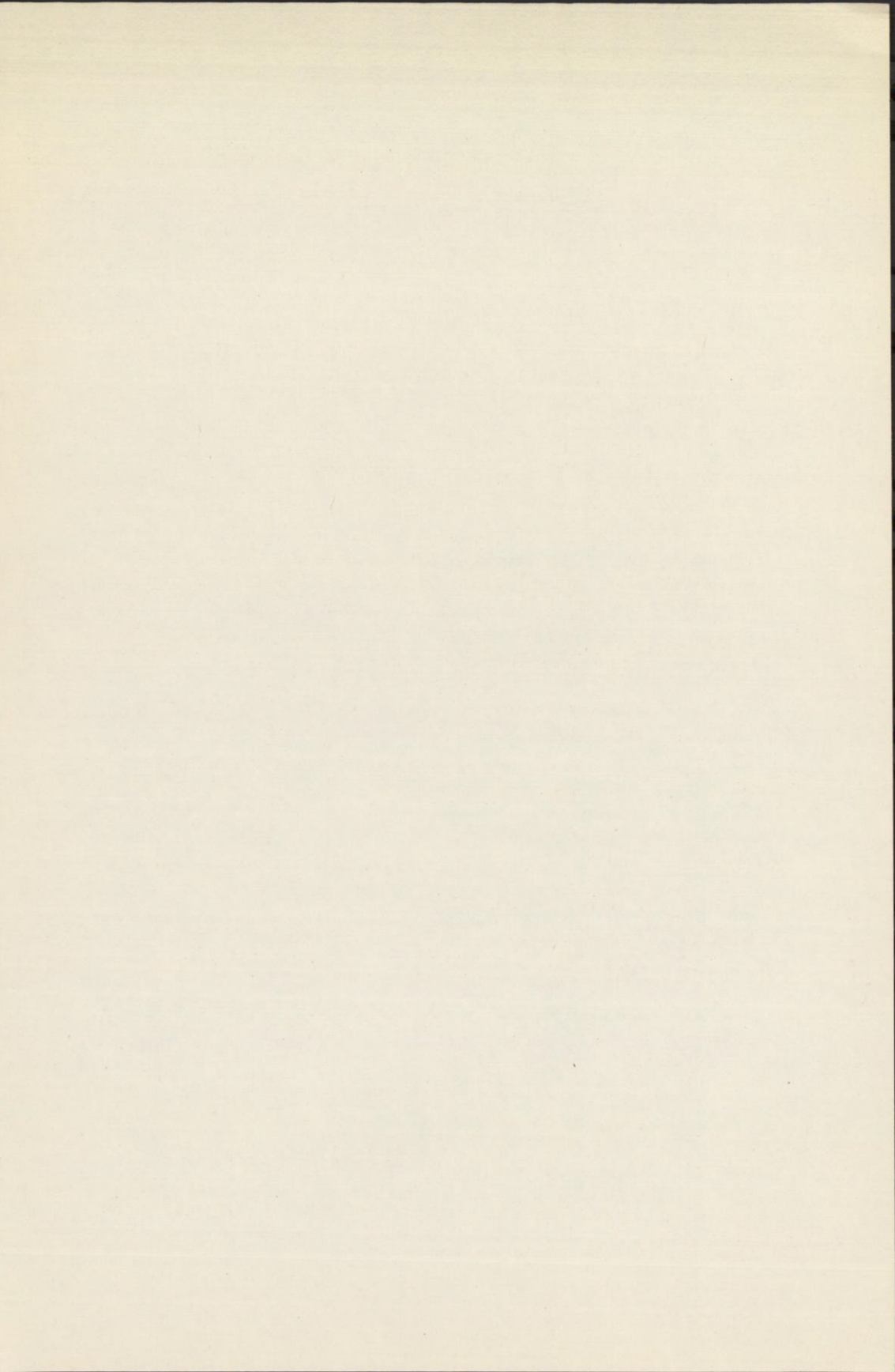
Walgreen

DRUG STORES

MRB
CORP. FILE

WALGREEN CO.
REPORT TO STOCKHOLDERS
Year Ended
September 30, 1939





Walgreen

DRUG STORES

CHICAGO

November 17, 1939.

TO OUR STOCKHOLDERS:

The financial statements for our company's fiscal year ended September 30, prepared in the usual manner by independent public accountants, follow. Earnings per share of common stock were \$1.87, as compared with \$1.25 last year, \$1.87 for 1937.

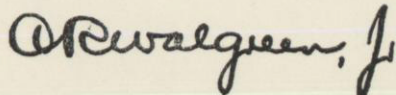
Your company's sales were more than three million dollars higher than in the previous year, although the number of stores operated was 493, as compared with 509 last year. A number of stores were opened during the year at excellent locations. Our largest Chicago store at the corner of State and Randolph Streets, was closed in April. It will soon reopen, occupying larger and better space in the newly erected building. The remainder of the decrease in the number of stores is accounted for by our consolidation of overlapping units, together with the elimination of certain unprofitable ones.

New drug stores will shortly be opened at Albuquerque, New Mexico; Birmingham, Alabama; Greensboro, North Carolina; Holyoke, Massachusetts; Cleveland, Ohio; and other points.

Because of ill health, my father, who was the founder of the business, felt it necessary to resign the Presidency of our company, in August. Your Board of Directors by unanimous action elected him Chairman of the Board, Mr. Justin W. Dart, General Manager, and me President. All of your Directors, including those mentioned, have long been in the business in executive capacities and have been actively associated with it for periods ranging from ten to well over twenty years.

I believe that the morale and efficiency of our company are excellent. We shall continue our best efforts to maintain and, if possible, increase them.

Yours very truly,



President.

ARTHUR ANDERSEN & CO.

135 SOUTH LA SALLE STREET

CHICAGO

To the Board of Directors,
Walgreen Co.:

We have made an examination of the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARY COMPANIES as at September 30, 1939, and of the statements of consolidated profit and loss and surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of profit and loss and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at September 30, 1939, and the results of their operations for the year ended that date.

Arthur Andersen & Co.

Chicago, Illinois,
November 15, 1939.

WALGREEN CO. AND S
CONSOLIDATED BALANCE

A S S E T S

CURRENT ASSETS:

Cash in banks, in transit and on hand	\$ 5,096,915.37
United States Savings Bonds, at redemption value.....	150,000.00
Accounts receivable, less reserves	776,430.86
Inventories of merchandise, priced at the lower of cost or market; based on physical inventories taken continuously throughout the year, quantities and condition determined by the company	8,858,812.60
TOTAL CURRENT ASSETS	\$14,882,158.83

PREPAID RENT (INCLUDING ADVANCES TO LESSORS), IN- SURANCE, TAXES, ETC.	1,271,442.03
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INVESTMENTS AND OTHER ASSETS:

Cash surrender value of \$727,159.11 insurance on life of C. R. Walgreen, chairman of the board of directors	\$ 254,421.45	
Notes and accounts receivable, less reserves	160,077.93	
Investment in and advances to affiliated company.....	448,000.00	
Investments in and advances to lessor real estate com- panies	411,957.04	
Stocks and bonds of other companies, at cost	327,090.28	
Preferred stock of Walgreen Managers Investment Co., at cost	50,000.00	
Note receivable from Walgreen Managers Investment Co., secured by 53,226 shares of Walgreen Co. common stock held on contract under employees' stock purchase plan	851,000.00	2,502,546.70

FIXED ASSETS:

Classification	Cost, Less Write-downs in Prior Years	Reserves for Depreciation	Net
Land	\$ 699,118.44	\$ —	\$ 699,118.44
Buildings (including buildings on leased land)	2,231,947.73	314,011.84	1,917,935.89
Equipment	10,962,344.37	4,517,190.23	6,445,154.14
	\$13,893,410.54	\$4,831,202.07	\$9,062,208.47
Short life equipment, at cost less amortization			287,077.40
GOODWILL, LEASEHOLDS, LEASEHOLD IMPROVEMENTS, ETC., at nominal value			1.00
			\$28,005,434.43

SUBSIDIARY COMPANIES

SHEET—SEPTEMBER 30, 1939

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 2,130,081.16
Employees' investment certificates	142,370.00
Accrued payrolls, rentals and other expenses	253,678.60
Accrued taxes other than Federal income taxes	741,746.03
Reserve for Federal income taxes	532,376.29
TOTAL CURRENT LIABILITIES	\$ 3,800,252.08

CONTINGENT LIABILITIES:

In connection with pending lawsuits, etc., estimated not to exceed	\$ 200,000.00
Under other agreements: A trustee acting for a group of employees of the company, in August 1936, purchased certain shares of Walgreen Co. common stock, principally from an estate, and sold this stock to such employees under deferred payments; 27,000 shares have been pledged by the trustee to secure repayment of bank loans. Walgreen Co. has agreed that it will, in event of default on the part of the trustee, repurchase such shares for an amount equal to the unpaid amount of such loans.....	<u>202,000.00</u>

CAPITAL STOCK AND SURPLUS:

Preferred stock 4½% cumulative, par value \$100 per share, with warrants attached for the purchase on or before September 15, 1943 of common stock at prices varying from \$39.00 to \$44.00 per share; redeemable on call or in voluntary liquidation at premiums varying from \$7.50 to \$4.00 per share— Authorized and outstanding 100,000 shares	\$10,000,000.00
Common stock without par value— Authorized 1,955,522 shares (100,000 shares reserved against exercise of warrants attached to 4½% preferred stock) Issued 1,292,485 shares	11,484,111.98
Earned surplus (restricted in an amount equal to two years' dividends on 4½% preferred stock and, under the Illinois Business Corporation Act, to the extent of cost of treasury stock)	3,004,910.37
	<u>\$24,489,022.35</u>
Deduct—Preferred stock held in treasury, 3,400 shares at cost	283,840.00
	<u>24,205,182.35</u>
	<u>\$28,005,434.43</u>

WALGREEN CO. AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended September 30, 1939

<u>Particulars</u>	<u>Amount</u>
GROSS SALES, less returns and allowances	\$71,997,004.73
Less—Provision for sales taxes	1,231,504.14
Net sales	<u>\$70,765,500.59</u>
COST OF SALES	45,276,551.72
Gross profit on sales	<u>\$25,488,948.87</u>
OTHER OPERATING INCOME	183,164.70
Total	<u>\$25,672,113.57</u>
OPERATING EXPENSES:	
Selling, advertising and occupancy	\$21,404,467.50
General and administrative	703,671.86
Net profit from operations	<u>\$ 3,563,974.21</u>
OTHER CHARGES AND INCOME:	
Other charges—	
Improvements to leased properties	\$ 147,823.33
Lease cancellation payments and expenses (net)	68,784.30
Capital stock and franchise taxes, etc.	80,989.43
Miscellaneous	15,384.32
Total	<u>\$ 312,981.38</u>
Other income—	
Profit on sale of investments and other assets (net), \$104,032.03, less additional provision for loss on long term receivables, etc.	\$ 25,209.03
Dividends received	69,083.69
Interest received, etc.	72,734.40
Total	<u>\$ 167,027.12</u>
Net profit before provision for Federal income taxes	<u>145,954.26</u>
PROVISION FOR FEDERAL INCOME TAXES	\$ 3,418,019.95
Net profit carried to earned surplus	<u>565,814.08</u>
Net profit carried to earned surplus	<u>\$ 2,852,205.87</u>

NOTE: The provision for depreciation of buildings and equipment for the current year was \$907,101.84. In addition, amortization of short life equipment, which substantially represents current expenditures, amounted to \$369,161.87.

CONSOLIDATED EARNED SURPLUS ACCOUNT

For the Year Ended September 30, 1939

BALANCE, SEPTEMBER 30, 1938	\$ 2,398,669.65
NET PROFIT for the year ended September 30, 1939	2,852,205.87
	<u>\$ 5,250,875.52</u>
DIVIDENDS PAID:	
On 4½% preferred stock—\$4.50 per share	\$ 436,486.15
On common stock—\$1.40 per share	1,809,479.00
BALANCE, SEPTEMBER 30, 1939	<u>\$ 3,004,910.37</u>

DIRECTORS

SANFORD J. BOWYER
JUSTIN W. DART
HARRY GOLDSTINE
ROBERT G. KNIGHT

ROLAND G. SCHMITT
CHARLES R. WALGREEN
CHARLES R. WALGREEN, JR.
JAMES E. WARD

OFFICERS

CHARLES R. WALGREEN *Chairman of the Board*
CHARLES R. WALGREEN, JR. *President*
HARRY GOLDSTINE *Vice-President*
A. L. STARSHAK *Vice-President*
ROLAND G. SCHMITT *Vice-President & Secretary*
ELMER E. RUECKERT *Treasurer*
WILLIAM G. JOHNSTON *Ass't Sec'y*
BERT O. PINCH *Ass't Sec'y*

COMMON STOCK

CHICAGO

Transfer Agent
FIRST NATIONAL BANK

Registrar
HARRIS TRUST & SAVINGS BANK

NEW YORK

Transfer Agent
COMMERCIAL NATIONAL BANK & TRUST CO.

Registrar
GUARANTY TRUST CO.

PREFERRED STOCK

CHICAGO

Transfer Agent
FIRST NATIONAL BANK

Registrar
HARRIS TRUST & SAVINGS BANK

NEW YORK

Transfer Agent
GUARANTY TRUST CO.

Registrar
COMMERCIAL NATIONAL BANK & TRUST CO.

